

VZCZCXRO5297
RR RUEHDE
DE RUEHCV #0218/01 0321545
ZNY CCCCC ZZH
R 011545Z FEB 07
FM AMEMBASSY CARACAS
TO RUEHC/SECSTATE WASHDC 7672
INFO RUEHHH/OPEC COLLECTIVE
RUEHAC/AMEMBASSY ASUNCION 0766
RUEHBO/AMEMBASSY BOGOTA 7217
RUEHBR/AMEMBASSY BRASILIA 5868
RUEHBU/AMEMBASSY BUENOS AIRES 1558
RUEHLP/AMEMBASSY LA PAZ 2455
RUEHPE/AMEMBASSY LIMA 0723
RUEHSP/AMEMBASSY PORT OF SPAIN 3334
RUEHQT/AMEMBASSY QUITO 2554
RUEHSG/AMEMBASSY SANTIAGO 3869
RUEHDG/AMEMBASSY SANTO DOMINGO 0378
RUEHUB/USINT HAVANA 1021
RUMIAAA/HQ USSOUTHCOM MIAMI FL
RHEHAAA/WHITEHOUSE WASHDC
RHEBAAA/DEPT OF ENERGY
RUCNDT/USMISSION USUN NEW YORK 0744
RUCPDO/DEPT OF COMMERCE
RUEATRS/DEPT OF TREASURY
RHEHNSC/NSC WASHDC

C O N F I D E N T I A L SECTION 01 OF 02 CARACAS 000218

SIPDIS

SIPDIS

ENERGY FOR CDAY, DPUMPHREY, AND ALOCKWOOD
NSC FOR DTOMLINSON

E.O. 12958: DECL: 01/12/2017

TAGS: [EPET](#) [ENRG](#) [EINV](#) [ECON](#) [VE](#)

SUBJECT: CONOCOPHILLIPS MEETS WITH ENERGY VICE MINISTER

REF: A. CARACAS 102

[1](#)B. CARACAS 157

Classified By: Economic Counselor Andrew N. Bowen for Reason 1.4 (D)

[1](#)1. (C) SUMMARY: ConocoPhillips (CP) executives met with Energy (MEP) Vice Minister Bernard Mommer on January 31 to discuss the shipment of Cuban oil to the Petrozuata upgrader and the migration of the Petrozuata and Hamaca strategic associations to PDVSA controlled joint ventures. Mommer stated Cuban oil will not/not be shipped to Petrozuata for upgrading. CP stressed it must have fair compensation for lost value, a prominent governance role in the new joint ventures, and international arbitration in order to migrate. Mommer said there was very little flexibility in MEP's proposal and indicated he thought the migration process would be completed in 90 days. CP executives stated media reports about the signing of a migration agreement for the Sincor association were false. END SUMMARY

CUBAN ISSUE APPEARS TO BE RESOLVED

[1](#)2. (C) As reported in Reftel A, CP was concerned that PDVSA would try to use Petrozuata to upgrade Cuban or Iranian crude, and that that might place CP in violation of U.S. law. In a January 30 meeting with the Ambassador and Econoffs, CP executives stated they had evidence that a shipment from Cuba would be sent to Petrozuata in the next few weeks. When pressed for details, they stated they did not know if a tanker had been loaded and stated a shipment did not appear on Petrozuata's shipping register.

[1](#)3. (C) In a follow-up meeting with Petroleum Attache (Petatt) on January 31, a CP executive stated the shipment of Cuban crude was the first item CP raised in a meeting with Mommer earlier in the day. CP had sent Mommer and his

American attorney advisors copies of the relevant U.S. legislation dealing with trade with Cuba prior to the meeting. The CP executives stated Mommer and his attorneys seemed to understand the gravity of the situation and stated they would get back to CP shortly on the issue. During the course of the meeting with Petatt, a second CP executive interrupted the meeting and said he had just spoken with Mommer. He stated Mommer said the issue was resolved and that Cuban crude would not be shipped to Petrozuata for processing.

14. (C) The CP executive said Mommer told him not to say anything on the phone and referred to the Cuban issue as "the first issue in our meeting." The executive surmised that Mommer knew that CP's phones had been tapped. Both CP and ExxonMobil executives have told us that they were informed by reliable sources that their phones were recently tapped.

MIGRATION OF THE STRATEGIC ASSOCIATIONS

15. (C) In the January 30 meeting with the Ambassador, CP executives stated their company has three vital needs that must be addressed if they are to migrate their two associations to PDVSA controlled joint ventures. First, CP must receive fair compensation for the value that they will lose in both associations as a result of the migration. Second, CP must have a significant governance role in the two joint ventures. Finally, CP must have rights to international arbitration. CP executives told Petatt that Mommer was noncommittal when they presented their three points to him in the January 31 meeting. He told them the MEP has very little negotiating flexibility regarding the two

CARACAS 00000218 002 OF 002

written proposals it provided to CP (Reftel B). The terms of the written proposals are basically the same as the terms in the migration of the former operating service agreement fields to PDVSA controlled joint ventures. (NOTE: As reported in Reftel B, the MEP originally supplied CP with a proposal for the Hamaca strategic association. CP executives could not explain the delay in providing them with a proposal for Petrozuata. END NOTE.)

16. (C) When the Ambassador asked about CP's corporate structure in Venezuela, the executives replied that CP incorporated its subsidiaries last year as Dutch companies in order to take advantage of the Dutch Bilateral Investment Treaty. CP executives told Petatt that they had already taken administrative steps to preserve their arbitration rights. The executives told the Ambassador that arbitration was the worst case scenario for CP.

17. (C) CP executives in the January 30 meeting also stated their migration negotiations with the MEP would cover the Corocoro profit sharing agreement as well as Petrozuata and Hamaca. Industry contacts had told us that the MEP would concentrate on migrating the strategic associations and then turn their attention to the profit sharing agreements. Under the terms of the Corocoro profit sharing agreement, PDVSA would receive a 50 percent share of profits (PEG) in excess of regular taxes. The migration of Corocoro to a joint venture would eliminate the PEG and would actually produce a better deal for CP. The CP executives noted Mommer said the removal of the PEG should be considered as part of CP's compensation for value lost during the migration.

18. (C) The executives also stated that Mommer has shortened the time for implementation of the migrations. Mommer had previously told various oil company representatives the migration process would take three to six months. Mommer is now stating the process should take 90 days.

19. (C) Rumors began circulating earlier this week that Total and Statoil had signed a migration agreement with the MEP for the Sincor strategic association. Petroleumworld picked up

the story and reported it as fact. When asked about the rumors on January 31, CP executives said they had been in touch with both Total and Statoil and both of them denied the story. Both Total and Statoil stated they still had numerous issues to resolve before they could sign a migration agreement.

COMMENT

¶10. (C) With the passage of the Enabling Law on January 31 (Septel), we expect the migration process to speed up dramatically. The six international oil companies (IOCs) appear to be holding firm on their demands for fair compensation and governance. It remains to be seen which side will blink first. As noted in Reftel B, it is entirely possible that some of the IOCs will not be operating in Venezuela this time next year.

BROWNFIELD